J. Harris & Sons, Limited
ANNUAL REPORT 1976

FINANCIAL HIGHLIGHTS

	1976	1975
Revenue	$58.6m	$55.2m
Net Profits	$1,994,857	$4,866,382
Per Share	$.61	$1.50
Cash Flow from Operations	$3,136,916	$5,780,950
Per Share	$.96	$1.78
Working Capital	$9,412,325	$8,971,362
Shareholders Equity	$16,444,441	$15,204,040
Per Share	$5.05	$4.67
Average Shares Outstanding	3,256,875	3,253,375

OFFICERS
Milton E. Harris *Chairman & President*
James Wilson *Vice President Marketing*
Glenn Riddell *Vice President Manufacturing*
Bruce Timmerman, C.A. *Vice President Finance*
Lorie Waisberg *Secretary-Treasurer*

DIRECTORS
Gordon Atlin, Q.C. *Toronto, Ontario*
Geoffrey J. Jackson *Toronto, Ontario*
C.H. Franklin *Toronto, Ontario*
Joseph Godfrey *Toronto, Ontario*
Milton E. Harris *Toronto, Ontario*
Barrie D. Rose, C.A. *Toronto, Ontario*
Neil B. Ivory *Montreal, Quebec*

AUDITORS Clarkson Gordon & Co.

SOLICITORS Goodman and Goodman

REGISTRAR AND TRANSFER AGENT Guaranty Trust Company of Canada

BANKERS
Royal Bank of Canada
Toronto Dominion Bank

HEAD OFFICE 1139 Shaw Street, Toronto

Plants, Divisions and Subsidiary Companies

Fabrication and Supply-Reinforcing Steel . . . J. Harris & Sons, Limited

Fabrication, Supply and Erection-Structural Steel . . . . Frankel Structural Steel Limited

Industrial Steel and Aluminum Grating . . . . . Fisher & Ludlow Limited

Saunders Form Hardware and Industrial Wire Products . . . . . . Laurel Steel Products Limited

Concrete Post-tensioning and Reinforcing Steel Erection . . . . VSL Canada Ltd. / VSL Ltee.

Construction Equipment Rentals . . . . Frankel Steel Construction Services Limited

Corporate Development . . . . J. Harris & Sons Developments (Middlesex) Limited

Offices and/or plants are located in Vancouver, Edmonton, Toronto, Milton, Burlington Stoney Creek (Hamilton), Windsor, London, Thunder Bay Montreal, Halifax, and in St. John's, Newfoundland.

FRONT COVER

Reinforcing steel supports manufactured by Laurel Steel Products Limited

report to shareholders

Despite very difficult market conditions in most of your company's product areas, your company has been able to earn approximately $2 million after tax in 1976. We have been able to increase our working capital by almost $1/2 million and our net equity by $1.2 million. (Net equity per share is up from $4.67/share to $5.05/share).

All divisions of the company (Harris, VSL, Laurel, Frankel) were profitable, but only Laurel was comparable to 1975.

Frankel Steel operated at full capacity in both the Toronto and Milton plants, and, although profits were well below the boom year of 1975, Frankel met planned profit levels.

The original Harris companies (Harris, VSL, Laurel) experienced very severe competition in most product areas. The management team of this group had their marketing and cost control skills tested to the utmost in 1976 and were successful in making a good contribution to the total profits of the Harris group of companies. In 1976 Harris expanded their geographic areas by opening up fabrication and marketing facilities in both St. John's, Newfoundland and Edmonton, Alberta.

Our company is now ready to market a revolutionary new steel joist which has been two years in development and embodies considerable labour and material efficiencies, as well as safety advantages, over conventional steel joists. Our Research & Development team have overcome the most difficult design and manufacturing problems and we are very enthusiastic about the contribution of this product to our future profitability.

The sale of Frankel's Shaw Street plant in Toronto will be completed on June 30 and we will receive almost $3 million cash in net proceeds. It is our intention to move the Frankel operation to our Milton plant site by mid 1978.

On March 15, 1977 we completed the purchase of all of the shares of Fisher & Ludlow Limited. Fisher & Ludlow, with head office and manufacturing plant in Burlington, Ontario, is the largest Canadian manufacturer of heavy industrial steel gratings and sells its product across Canada, with an office and plant in Vancouver, B.C. and a sales office in Montreal. We intend to open warehouse facilities in Montreal to better service our customers in Quebec. There is no manufacturer of heavy industrial steel grating in Quebec.

The market for Fisher & Ludlow's gratings is primarily in power plants, refineries, tar sands plants, sewage and water treatment plants. Fisher & Ludlow is a perfect fit with all of the other operations in the Harris group and management is very optimistic that Fisher & Ludlow will make a substantial contribution to earnings this year and in the future.

The world-wide recession, and the downturn in new capital construction, particularly in Canada, have had a considerable impact on our group's sales and earnings. There is no question that the inflation of the last five years, and particularly the rapid increase in the cost of oil and other forms of energy, have been a damper on capital expenditure intentions. This has been compounded in Canada by uncertainties brought about by Anti-Inflation guidelines and the Quebec

threat to Confederation. It is clear that the inflationary expectations have not yet been wrung out of our society and I would commend the Federal government for resisting the temptation to prematurely remove the restraints. Our experience with labour demands does not give us confidence that Canadians have yet learned that we are pricing ourselves out of jobs, in favour of workers in Europe, Japan and the United States.

We are encouraged by the attention being given to the fast escalating energy problem. President Carter, in the United States, appears to be determined to deal with a projected shortfall in energy which will be catastrophic in the next 7 to 10 years unless faced immediately. I hope that the Canadian government will waste no time in following President Carter's lead. The solution sorts itself into two main thrusts — energy conservation and energy production. Both will require massive capital investment. The very wide experience in energy construction of all of the companies in our group makes us optimistic about our future participation in this rapidly growing sector. We believe that there will be outstanding opportunities for our skills in the coming energy construction boom.

A lower level of capital construction in this country has caused severe competitive conditions in most markets served by your company. We are faced with unrealistic pricing in many areas. We are aware that unbalanced debt burdens have seriously eroded the financial positions of most segments of the steel construction industry. However, the management of your company has been very careful to conserve our resources. Our overall bank borrowings, excluding funds used for the purchase of Fisher & Ludlow, are down by $4 million from December 31, 1976. Bank loans will be reduced further throughout the remainder of 1977. This leaves us with a very low borrowings to equity ratio and we are in an excellent position to further expand our earnings base by acquisition.

It is the present judgment of management that the best opportunities for new acquisitions are in the United States and we will be concentrating our search there.

1976 has been a very trying year in the steel construction industry. The fact that we have continued to be successful is a measure of the very high calibre of company management and staff in all of our product areas. On behalf of the Board of Directors and all of the Shareholders, I would like to express our appreciation to all of the members of our winning team.

M.E. Harris

M.E. Harris
President & Chief Executive Officer

The directors of J. Harris & Sons, Limited are shown left to right Geoffrey J. Jackson, Joseph Godfrey (standing), Cecil H. Franklin, Milton E. Harris, Barrie D. Rose, Gordon Atlin (standing), Neil B. Ivory.

DIRECTORS OF J. HARRIS & SONS LIMITED

Milton E. Harris
President and Chairman of the Board

Gordon Atlin, Q.C.
Senior partner with the law firm of
Atlin, Goldenberg, Cohen, Gamble and Armel

Geoffrey J. Jackson
President, Frankel Structural Steel Limited

Barrie D. Rose, C.A.
Chairman and Chief Executive Officer of
Androck Company Limited

Cecil H. Franklin
Chairman and Chief Executive Officer of
Algonquin Mercantile Corporation;
Chairman of the Board,
Hardee Farms International Limited

Joseph Godfrey
President and Director of
York Wood Investments Limited;
Jonat Construction Company Limited and
Joseph Godfrey Investments Limited

Neil B. Ivory
President of Pembroke Management Ltd.;
President of the Yukon Consolidated Gold Corporation Ltd.;
Vice President of GBC Capital Ltd.

steel is the common denominator

The common denominator for all J. Harris activities is steel.

Thus, the industrial steel grating that is manufactured and marketed by newly-acquired Fisher & Ludlow will supplement the steel bars that are fabricated and installed by J. Harris & Sons, the steel columns and girders that are fabricated and erected by Frankel Structural Steel, the post tensioning systems that are a specialty with VSL Canada and the joists, wire mesh and various industrial steel products that are manufactured and distributed by Laurel Steel Products.

Through acquisitions and internal diversification, the Harris group has achieved a product mix that meets the needs of major projects.

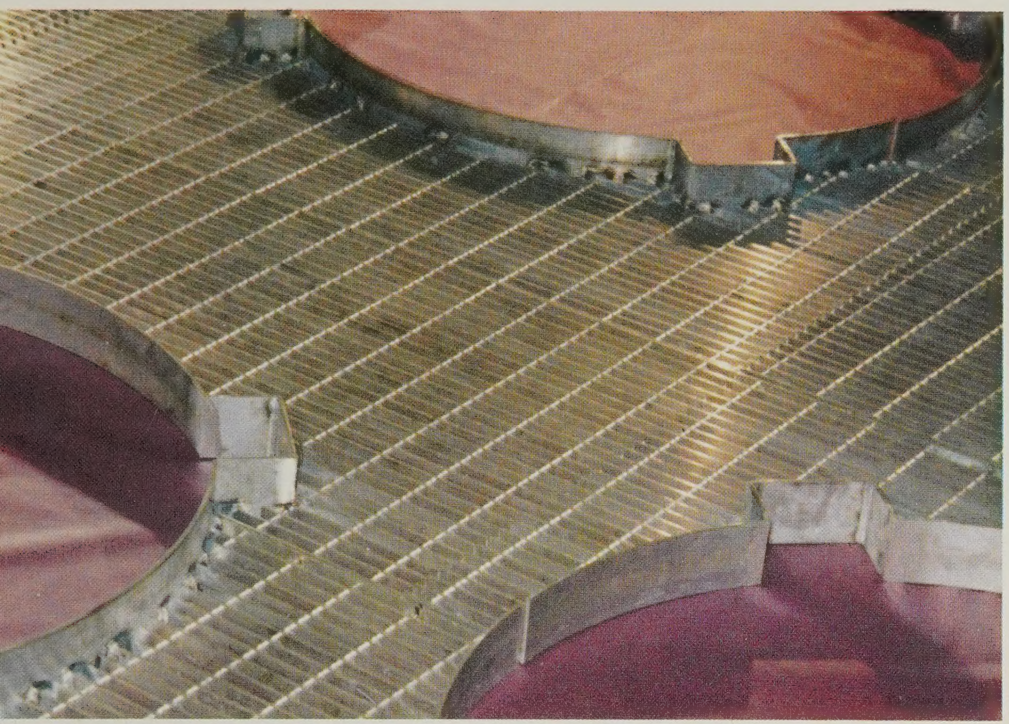
In addition — and most important — Harris now provides many products and services to outside contractors and "non-construction" customers. This applies particularly in such areas as the industrial wire products manufactured by Laurel Steel Products and Fisher & Ludlow's industrial steel grating.

Outside marketing is providing additional revenues for the company. Increasingly it also means there is less dependence on the undertaking of major projects by Harris itself.

The Fisher & Ludlow acquisition included branch operations in Vancouver and Montreal. As a result J. Harris has become truly national, with locations in Vancouver, Edmonton, Thunder Bay, Windsor, London, Toronto, Montreal, Halifax and St. John's.

The common tie within the Harris companies is steel.

The purchase of Fisher & Ludlow adds still another steel product and a significant presence in two more of Canada's market areas.




the Harris growth story

In a relatively short period — starting with its first acquisition in 1968 — J. Harris & Sons, Limited has emerged as an integrated and successful steel processing group.

Diversification started less than nine years ago with the addition of Laurel Steel's wire products and VSL Canada Limited's unique post tensioning system.

Since then other companies have joined Harris, including Frankel Structural Steel in 1974 and, in March 1977, Fisher & Ludlow with its modern industrial steel grating plant at Burlington, Ontario.

But acquisitions are only part of the Harris growth story.

Emphasis has also been directed towards the development of new products within the Harris companies, as well as new applications and new sales markets. As a result the company has taken on a new dimension — while continuing to demonstrate its ability to generate higher revenues and earnings.

The combined Harris companies now have a work force of more than 1,200 employees. There are Harris branches from coast to coast.

At any given time 50 to 60 different Harris projects will be underway. Some may involve the products and/or services of just one Harris company. Others may involve several Harris companies — with Frankel's structural steel, for example, going hand-in-hand with J. Harris's reinforcing steel (rebars) or perhaps with steel joists and construction mesh supplied by Laurel Steel, or post tensioning systems by VSL.

Looking back, it's been an exciting growth period for J. Harris.

Looking ahead, expansion will continue on the same carefully-planned basis, with new products and services adding further diversity — and the prospect of new financial gains.

J. HARRIS & SONS, LIMITED
(Incorporated under the laws of Ontario)
and its subsidiary companies

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1976
(with comparative figures at December 31, 1975)

ASSETS

	1976	1975
Current assets:		
Accounts receivable	$12,713,680	$10,279,412
Due from joint ventures (note 1)	557,476	1,397,952
Inventories, valued at the lower of cost or net realizable value (note 2)	7,095,896	9,632,858
Estimated value of jobs in progress less progress billings (note 1)	3,386,959	900,085
Income taxes recoverable (note 3)	1,377,304	
Prepaid expenses and deposits	112,809	49,140
Total current assets	25,244,124	22,259,447
Investments:		
Share in other companies, at cost (estimated market value 1976 - $155,000; 1975 - $210,000)	44,259	44,259
Fixed assets, at cost (note 1)		
Land	2,228,770	2,105,941
Buildings	2,577,955	2,419,671
Machinery and equipment	9,612,661	7,966,462
	14,419,386	12,492,074
Less accumulated depreciation	6,465,165	5,630,823
	7,954,221	6,861,251
	$33,242,604	$29,164,957

AUDITORS' REPORT

To the shareholders of J. Harris & Sons, Limited:

We have examined the consolidated balance sheet of J. Harris & Sons, Limited and its subsidiaries as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of the companies as at December 31, 1976, the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
April 25, 1977

Clarkson Gordon & Co.
Chartered Accountants

(See attached notes)

LIABILITIES

	1976	1975
Current liabilities:		
Bank indebtedness (secured by inventories and accounts receivable)	$ 7,916,598	$ 4,621,695
Accounts payable and accrued charges	4,661,613	5,089,063
Income and other taxes payable	837,420	2,537,909
Deferred income taxes — current portion (note 3)	2,413,200	1,036,700
Long-term debt due within one year	2,968	2,718
Total current liabilities	15,831,799	13,288,085
Deferred income taxes	905,019	608,519
Long-term debt:		
9% mortgage loan due September, 1988	64,313	67,031
Less amounts due within one year included with current liabilities	2,968	2,718
	61,345	64,313
Shareholders' equity (note 4):		
Capital (without par value) —		
Authorized:		
5,000,000 Class A shares		
5,000,000 Class B shares		
100 common shares		
Issued:		
1976		
974,517 Class A shares	732,891	
2,284,858 Class B shares	1,718,341	
1975		
3,253,375 common shares		2,445,232
Retained earnings	13,993,209	12,758,808
	16,444,441	15,204,040
	$33,242,604	$29,164,957

On behalf of the Board:

Director

Director

J. HARRIS & SONS, LIMITED
and its subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1976
(with comparative figures at December 31, 1975)

	1976	1975
Sales and construction revenue	$58,591,877	$55,215,779
Income before the following	$ 4,951,295	$ 9,885,141
Deduct:		
Depreciation	845,559	697,541
Interest on long-term debt	5,814	143,258
Other interest expense	594,065	307,173
	1,445,438	1,147,972
Income before income taxes and extraordinary items	3,505,857	8,737,169
Income taxes	1,511,000	3,914,500
Income before extraordinary items	1,994,857	4,822,669
Extraordinary items:		
Gain on sale of land net of applicable taxes		93,713
Goodwill written off		50,000
		43,713
Net income for the year	$1,994,857	$ 4,866,382
Earnings per share (note):		
Income before extraordinary items	$0.61	$1.48
Net income for the year	$0.61	$1.50

Note: The earnings per share are based upon the weighted average number of shares outstanding during the year. The exercise of the options referred to in note 4 would not result in any material dilution of earnings per share. (See attached notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	1976	1975
Source of funds:		
Income before extraordinary items	$1,994,857	$4,822,669
Charges to operations not involving an outlay of funds —		
Depreciation	845,559	697,541
Deferred income taxes	296,500	260,740
Funds derived from operations	3,136,916	5,780,950
Proceeds from sale of land net of applicable taxes		914,874
Proceeds from issue of shares	6,000	
	3,142,916	6,695,824
Application of funds:		
Additions to fixed assets	1,938,529	2,803,691
Dividends and special taxes related thereto	760,456	566,470
Reduction of long-term debt — non-current portion	2,968	4,223,060
Purchase of shares in another company		15,759
	2,701,953	7,608,980
Increase (decrease) in working capital	440,963	(913,156)
Working capital, beginning of year	8,971,362	9,884,518
Working capital, end of year	$9,412,325	$8,971,362

(See attached notes)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1976
(with comparative figures at December 31, 1975)

	1976	1975
Retained earnings, beginning of year	$12,758,808	$ 8,458,896
Net income for the year	1,994,857	4,866,382
	14,753,665	13,325,278
Deduct:		
Taxable dividends declared during year	58,471	
Tax deferred dividends declared during year	604,834	520,540
Special taxes paid by company relating to tax deferred dividends	97,151	45,930
	760,456	566,470
Retained earnings, end of year	$13,993,209	$12,758,808

(See attached notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. **Accounting policies**

Basis of consolidation —

The consolidated financial statements include the accounts of the company and all subsidiaries. Investments in joint ventures are carried at cost plus the companies' share of undistributed profits to date.

Uncompleted contracts —

Estimated value of jobs in progress represent contracts in progress valued on the percentage of completion basis. Under the percentage of completion method, revenue is accrued as the work is performed, and provision is made for total anticipated losses where the estimate of total costs on a contract indicates a loss. Although the company uses its best engineering estimates, the final results of jobs in progress will necessarily be dependent upon future costs and revenues.

Fixed assets —

The company depreciates its buildings, machinery and equipment on a straight-line basis and its mobile equipment on a declining balance basis at the following rates:

Buildings	10%
Machinery and equipment	10%
Mobile equipment	30%

Income taxes —

The company follows the income tax allocation method of accounting. The deferred income taxes included in current liabilities relate to jobs in progress, investment in joint ventures and holdbacks receivable. Non-current deferred income taxes relate to fixed assets.

2. **Inventories**

Inventories consist of the following:

	1976	1975
Raw Materials	$6,558,427	$9,093,451
Work in progress	85,319	110,122
Finished goods	452,150	429,285
	$7,095,896	$9,632,858

3. **Income Taxes Recoverable**

Income taxes recoverable arose mainly because of the substantial increase in the balance sheet item "Estimated value of construction in progress", which is allowed as a deduction for income tax purposes in the year the cost is incurred. This had the effect of deferring 1976 taxes payable and giving rise to a loss carry back tax credit for one of the subsidiaries.

4. **Capital stock and dividends**

The company's articles of incorporation were amended on October 25, 1976, to adjust the authorized share capital from 6,000,000 shares without par value to 5,000,000 Class A shares, 5,000,000 Class B shares and 100 common shares each without par value. The 3,253,375 previously issued shares were reclassified as 3,253,375 Class A shares. The remaining 2,746,625 unissued shares were reclassified as 1,746,625 Class A shares, 999,900 Class B shares and 100 common shares. In addition, the authorized capital of the company was increased by the creation of 4,000,100 Class B shares. Class A and Class B shares are convertible into one another on a share-for-share basis at any time. The shares of each class rank equally in all respects, except that dividends on Class B shares may be declared payable out of the company's tax-paid undistributed surplus on hand or 1971 capital surplus on hand as defined by the Income Tax Act of Canada.

At December 31, 1976, approximately $3,200,000 of consolidated retained earnings (including approximately $1,800,000 of 1971 capital surplus) is available for the payment of tax deferred dividends on Class B shares in 1977 and 1978.

During the year under an employee stock option plan, 6000 shares were issued for a cash consideration of $6,000.

Options are outstanding at December 31, 1976 for 18,000 shares at $1.00 per share which may be exercised to June 30, 1979 at the rate of 6,000 shares per year.

5. **Subsequent events**

On March 15, 1977, the company acquired 100% of the common and preferred shares of Fisher & Ludlow Limited. The purchase price of $815,223, after the payment of a dividend of $1,684,777 by Fisher & Ludlow Limited to the former owners, was fully represented by net tangible assets.

The company has agreed to sell its land and buildings located on Shaw Street in Toronto, Ontario, to the City of Toronto. On the closing date, June 30, 1977, the company will receive net proceeds of $2,958,186 which is in excess of the carrying value of the property.

6. **Remuneration of directors and senior officers**

Remuneration of directors and senior officers of the company as defined by The Ontario Business Corporations Act (1970) including profit sharing bonuses, amounted to $331,885 (including $7,500 as directors' fees) in 1976 and $379,986 (including $7,500 as directors' fees) in 1975.

7. **Anti-Inflation Legislation**

The company and its subsidiaries are subject to the Anti-Inflation Legislation enacted by the Government of Canada effective October 14, 1975 to provide for the restraint of profit margins, prices, employee compensation and dividends.

The compliance reports which are being filed with the Anti-Inflation Board indicate that the company and its subsidiaries did not earn excess revenue for the year ended December 31, 1976.

8. **Contingent Liability**

A subsidiary of the Company, along with a number of other defendants, has been sued for allegedly defective structural work. While the total claim for damages against all defendants is approximately $1.1 million, it is the opinion of management, based on discussions with the company's solicitors, that the ultimate liability to the company, if any, will not be significant.

J. HARRIS & SONS, LIMITED

FINANCIAL SUMMARY

	1976	1975	1974	1973	1972
Revenue	$58.6m	55.2m	40.9m	20.4m	15.8m
Profits	$2.0m	4.9m	5.8m	1.3m	282,968
Per Share (A)	61¢	$1.50	$2.12	49¢	10.7¢
Funds Provided	$3.1m	5.8m	6.3m	1.6m	402,993
Per Share (A)	96¢	$1.78	$2.28	60¢	15.2¢
Dividends (A)	20.4¢	16¢	10.2¢	4¢	3.3¢
Effective Tax Rate (including deferred)	43%	45%	45%	46%	48%
Financial:					
Assets	$33.2m	29.2m	29.5m	8.3m	6.04m
Long-term debt	$64,313	67,031	5,154,960	697,368	117,689
Current Assets	$25,244,124	22,259,447	23,800,482	6,894,021	4,983,634
Current Liabilities	$15,831,799	13,288,085	13,915,964	4,127,654	3,729,239
Working Capital	$9,412,325	8,971,362	9,884,518	2,766,367	1,254,395
Current Ratio	1.6:1	1.7:1	1.7:1	1.7:1	1.3:1
% Inventory to Current Assets	42%	43%	44%	34%	22%
Capitalization:					
Common Shares	$2,451,232	2,445,232	2,445,232	411,214	377,451
Retained earnings	$13,993,209	12,758,808	8,458,896	2,955,968	1,729,771
Shareholders Equity	$16,444,441	15,204,040	10,904,128	3,367,182	2,107,222
Per Share (A)	$5.05	$4.67	$3.97	$1.25	80¢

A — Based on average number of shares outstanding after 3 for 1 split in 1974.